

Appendix C

Tax Reform Models Considered By the Advisory Committee

Tax Restructuring Components	(Cost) / Savings	Comment	Tax Restructuring Components	(Cost) / Savings	Tax Restructuring Components	(Cost) / Savings	Comment
<b>Property Tax Relief: Real Property</b>			<b>Property Tax Relief Revenue Sharing</b>		<b>Homestead Property Tax Reimbursement Program</b>		
<b>Expand the Circuit Breaker Program.</b> Reduce the tax-to-income threshold to 3%, increase the maximum rebate to \$5,000, increase eligibility to \$45,000 for single filers and \$75,000 for multi-member households, and increase the renter percentage to 25 percent. Provide for a refundable tax credit on the income tax form. This proposal will provide targeted tax relief to lower income, working, and middle income households without providing property tax reimbursement to those who do not need it.	(\$48,910,239)		Keep Revenue Sharing 1 in its present form, including application of the Consumer Price Index to funding increases in this program. Increase from 5.1% to 6.0%, the percentage of sales and income tax revenues allocated to Revenue Sharing. Increase the threshold mil rate from 10 mills to 15 mills over a 5 year period that a municipality must meet to qualify for Revenue Sharing 2.	(\$16,999,021)	Keep the Homestead Property Tax Reimbursement Program in its present form without any changes. This program provides up-front property tax relief which benefits some middle-income households. Elimination of the program would result in the loss of 2% to 3% of property tax		Currently funded at \$40.2 million.
<b>Property Tax Relief: Personal Property</b>			<b>Property Tax Relief: Personal Property (Cont'd)</b>		<b>Property Tax Relief: Personal Property (Cont'd)</b>		

Exclude, prospectively, from the personal property tax, new investment made by capital intensive firms, manufacturing firms, telecommunications firms, firms for which out-of-state sales exceed 50% of total sales, non-retail and non-professional office firms. Subject retail establishments to the personal property tax, except warehouse facilities that support retail establishments shall be excluded from this tax. Computerized systems, other than systems for inventory control and cash registers shall also be exempt.

The cost of this program will exceed \$50 million when fully implemented in 10 to 20 years. All current property in the BETR program will remain exempt from the personal property tax following its exit from the Business Equipment Tax Reimbursement (BETR) program. The BETR program will be eliminated once all current personal property in the program has been removed from the program.

The Constitutional requirement that the State reimburse municipalities for 50% of revenue losses from changes in the personal property tax will remain in effect. Increased funding for Revenue Sharing will also offset reduced personal property tax revenues. For a fee charged to municipalities, the State will assume responsibility for assessing personal property valued at \$10 million or more.

Consolidation/Regionalization	Municipal Service Payment in Lieu of Property Tax Payments	Reduce the Volatility of State Revenues		
Commission on the Efficient Delivery of Services	Commission on the Assessment of Service Payments on Tax-Exempt Property	Budget Stabilization Fund		
			Option 1.	Option 2

<p>1. Establish a commission to study and recommend to the Legislature an implementation plan for the efficient delivery of local, regional, and state governmental services, to include, but not be limited to: regionalization of administration and implementation of services.</p> <p>2. The Governor and the presiding officers of the State Legislature will appoint the commission.</p> <p>3. The commission will consist of representatives of municipal, county, and state governments as well as representatives of the private sector and the general public.</p> <p>4. The Commission will report its findings and recommendations, including any necessary implementing legislation to the Second Regular Session of the 121st. Legislature.</p>		<p>Authorize municipalities to establish a municipal cost component for services provided to owners of property that is exempt from the property tax, and to assess a municipal cost of service fee against these properties, including governmental properties. The determination of the fee against each property tax exempt parcel or lot must take into consideration the characteristics of each lot, such as number and square footage of buildings, if any, equipment, other facilities, etc. A commission composed of state, county, and regional officials, a representative of the Maine municipal Association, and a representative of non-profit organizations would be established to develop a formula or process for municipalities to use to determine the municipal cost of service component for tax-exempt property.</p>		<p><b>Two Options.</b></p> <p><b>First Option.</b> The Budget Stabilization Fund would be funded "off the top" from the General Fund at a rate of 2% of total revenues. Any actual revenues in excess of a specified percentage of projected revenues will be divided among funding additional tax relief, and the Budget Stabilization Fund. The Budget Stabilization Fund will be capped at 12% of General Fund revenues.</p> <p><b>Second Option.</b> The Budget Stabilization Fund would be funded from the top 2% of an expanded tax base [increase in Sales Tax base], and current language regarding the dedication of 25% of excess revenues to the Rainy Day Fund would be retained for the Budget Stabilization Fund.</p>	<p>(\$56,000,000)</p> <p>(\$1,933,668)</p>
	Operating costs of the Commission		Operating costs of the Commission		

Earned Income Tax Credit		Increased Personal Exemption		General Purpose Aid to Education	
Increase the Earned Income Tax Credit to 30% of the Federal Rate.	(\$34,991,628)	1. Conform with the Federal Income Tax Credit provision and increase the personal exemption to make it the same as the Federal exemption.	(\$10,159,716)	Increase funding to General Purpose Aid to education to the extent that tax reform can support additional funding	

**Current Personal Income Tax Brackets and Rates**

**Single Filers: Up to \$4,199 = 2.0%; \$4,200 to \$8,349 = 4.5%; \$8,350 to \$16,700 = 7.0%; and more than \$16,700 = 8.5%**

**Married Filing Jointly: Up to \$8,399 = 2.0%; \$8,400 to \$16,699 = 4.5%; \$16,700 to \$33,400 = 7.0%; More than \$33,400 = 8.5%.**

**Heads of Households: Income tax brackets are 1.5 times the brackets for single filers.**

Option 1 Flat Tax Model	Option 2 Top Rate Reduction Model	Option 3 Phased-in Three Tier Model
Flat Rate of 6.5%	Keep Rates of 2%, 4.5%, and 7%. Apply the 7.5% rate to incomes over \$69,600 - Married Filing Jointly.	Keep the current rates of 2% and 4.5%. Reduce the top rate of 8.5% to 6.5% over the period from FY 2004 - FY 2008 for income in excess of \$33,400.

Increase the Earned Income Tax credit equal to 30% of the federal rate		Increase the Earned Income Tax credit equal to 30% of the federal rate		As the top rate drops from 7% to 6.5% also drop the rate to 6.5% for the income tax bracket - \$16,700 to \$33,400.	
Conform to the personal exemption amount		Conform to the personal exemption amount		<b>Increase the Earned Income Tax credit equal to 30% of the federal rate. No increase in the personal exemption.</b>	
<b>Total Cost</b>	<b>(\$19,751,280)</b>	<b>Total Cost</b>	<b>(\$127,827,216)</b>	<b>Total Cost *</b>	<b>(\$67,137,094) (\$214,000,000)</b>
<b>The total cost for the fully implemented option 3 income tax model when finally and completely phased-in is \$214 million per year. Thr first year cost is \$67.1 million.</b>					
<b>Single Filers - Income tax brackets = one-half of tax brackets for married filing jointly.</b>		<b>Single Filers - Income tax brackets = one-half of tax brackets for married filing jointly.</b>		<b>Single Filers - Income tax brackets = one-half of tax brackets for married filing jointly.</b>	
<b>Heads of Households - income tax brackets = 1.5 times the brackets of single filers.</b>		<b>Heads of Households - income tax brackets = 1.5 times the brackets of single filers.</b>		<b>Heads of Households - income tax brackets = 1.5 times the brackets of single filers.</b>	

Funding Sources

Expand Sales and use Tax base to previously excluded services and exempt sales, and increase meals and lodging tax from 7% to 8%. Revenues reflect an annual amount.	\$96,683,418	Expand Sales and use Tax base to previously excluded services and exempt sales, and increase meals and lodging tax from 7% to 8%. Revenues reflect an annual amount.	\$96,683,418	Expand Sales and use Tax base to previously excluded services and exempt sales, and increase meals and lodging tax from 7% to 8%. Revenues reflect an annual amount.	\$96,683,418
Increase the tax on beer by 19 cents per six-pack and 12 cents per bottle of wine. Revenues reflect an annual amount.	\$8,418,000	Increase the tax on beer by 19 cents per six-pack and 12 cents per bottle of wine. Revenues reflect an annual amount.	\$8,418,000	Increase the tax on beer by 19 cents per six-pack and 12 cents per bottle of wine. Revenues reflect an annual amount.	\$8,418,000

Three Models Reviewed By the Speaker’s Advisory Committee On Tax Reform

Model	(Cost) - Savings	Model	(Cost) - Savings	Model	(Cost) - Savings
Model #1		Model #2		Model #3	
Primary Goal		Primary Goal		Primary Goal	
Expand the economy by reducing the tax burden on business.		Reduce the tax burden, ensure that the State meets its commitments, and restrict the rate of sprawl.		Property Tax and Income Tax relief.	
Property Tax Relief		Property Tax Relief		Property Tax Relief	
Repeal the Homestead Exemption and Expand the circuit Breaker Propgram. The Circuit breaker Program would pay 100 percent of property taxes that exceed 3% of income, up to \$6,000. Single filers with an income below \$50,000 and multi-member households with an income below \$80,000 would be eligible.		Repeal the Homestead Program and expand the Circuit Breaker Program. The Expanded Circuit Breaker Program would reimburse 100% of property taxes paid above 3% of income up to \$2500. The maximum eligible income level would be \$50,000 for single filers and \$75,000 for "married filing jointly."		Reimburse 100% of property taxes paid above 3% of income up to \$6,000. The maximum eligible income would be \$50,000 for single filers and \$80,000 for married filing jointly. Increase the Homestead Property Tax Exemption to 11% or 12% to keep property tax relief revenue neutral.	
	(\$16,528,250)		(\$7,142,156)		\$57,108,899

Eliminate the Personal Property Tax and phase out BETR. Business equipment placed in service prior to April 1, 1995 (pre BETR) remains taxable. Property tht is currently in the BETR program continues in the BETR program. Exemption for property that qualifies for BETR that is placed in service after April 1, 2003 (first taxable April 1, 2004) and for BETR property as it come out of the BETR program in year 13 (property will come out of BETR starting April 1, 2008 through April 1, 2015). Property placed in service prior to April 1, 1995 as well as non-BETR type property will remain taxable. Municipalities will be reimbursed for 50 percent of the lost revenues as required by the Constitution.

(\$4,442,635)

Reduce the Personal Property Tax Assessment from 100% to 25% over a three to four year period. Extend the reduced Personal Property Tax to all businesses including telecommunications and utilities. Reimburse municipalities for 50% of the lost revenues. [Municipalities would be made whole for 62.5% of the reduced revenues.]

(\$4,000,000)

Eliminate the Personal Property Tax and Phase-out BETR as Proposed in Model #1.

(\$4,442,635)

Provide the elderly with a maximum \$2,500 reimbursement for property taxes if the income of a single hlousehold is less than \$12,501, or less than \$25,001 for joint filers.

(\$6,229,187)

***Income Tax Relief***

***Income Tax Relief***

***Income Tax Relief***

**Single filers**

Up to \$4199 = 2.0%; \$4,200 to \$10,000 = 3.5% \$10,001 to \$25,000 = 5.0%;  
\$25,001 to 30,000=6.5%  
\$30,001 - \$50,000 = 7.5%;  
Over \$50,000 = 8.5%

**Married Filing Jointly**

Up to \$8,399 = 2.0%; \$8,400 - \$20,000 = 3.5%; \$20,001-\$50,000 = 5.0%;  
\$50,001-\$60,000 = 6.5%;  
\$60,001 - \$100,000 = 7.5%;  
Over \$100,000 = 8.5%

**Heads of Households** = 1.5 times the rates of Single Filers.

(\$930,557)

(\$227,272,382)

A flat Personal Income Tax Rate of 6.5%

(\$930,557)

Implement a flat income tax rate of 6.5%

Enact an Earned Income Tax Credit at 30% of the Federal rate	(\$34,991,628)	Enact an Earned Income Tax Credit at 30% of the Federal rate	(\$34,991,628)	Enact an Earned Income Tax Credit at 30% of the Federal rate	(\$34,991,628)
No provision for increasing the personal exemption.		Conform with the Federal Income Tax provision by increasing the personal exemption to be the same as the federal exemption.	(\$10,159,716)	No provision for increasing the personal exemption.	
<b>Business Income Tax Relief</b>		<b>Business Income Tax Relief</b>		<b>Business Income Tax Relief</b>	
Implementation of a flat corporate income tax of 7% on all taxable income of \$25,000 and over, and retention of the 3.5% tax rate on taxable income of less than \$25,000.	(\$6,825,036)	No change in Corporate Income Tax		No change in Corporate Income Tax	
Remove "S" Corporations and "C" Corporations, and partnerships, from the Corporate Income Tax and subject subject these corporations to a flat tax of 7% on all taxable income over \$25,000. For "S" and "C" corporations with a taxable income of less than \$25,000, the tax rate is 3.5 percent. [Corporate Income Tax revenues are reduced by \$49 million, but the new tax brings in \$50.7 million]		No change in Corporate Income Tax		No change in Corporate Income Tax	
	\$1,682,605				
<b>Revenue Adequacy</b>		<b>Revenue Adequacy</b>		<b>Revenue Adequacy</b>	
Create a Budget Stabilization Fund that would be funded "off the top" of General Fund Revenues at a rate of 2%. Any revenues in excess of and not exceeding 7% of the projected revenues would also go to the Budget Stabilization Fund. Any remaining "excess" funds would go to providing income tax relief.	(\$65,387,312)	Create a Budget Stabilization Fund that would be funded "off the top" of General Fund Revenues at a rate of 2%. Any revenues in excess of and not exceeding 7% of the projected revenues would also go to the Budget Stabilization Fund. Any remaining "excess" funds would go to providing income tax relief.	(\$76,401,004)	No Proposal Concerning Budget Stabilization Fund	
<b>Increased Aid to Education</b>		<b>Increased Aid to Education</b>			

Fund K - 12 Education at 55% of Essential Programs and Services	(\$250,000,000)	Fund K - 12 Education at 55% of Essential Programs and Services	(\$250,000,000)	No Proposal for Educational Funding	
<b>Revenue Volatility</b>		<b>Revenue Volatility</b>		<b>Revenue Volatility</b>	
Extend the Sales tax to all consumer purchases and reduce the rate to 3.5%.		Extension of the Sales Tax to all current exemptions, <b>except</b> Constitutional exemptions/prohibitions, governmental entities, and the following consumer purchases - Health care, prescription drugs, health insurance, school tuition payments, heating oil for residential heating, and the first 750 kilowatt hours of electricity and reduce the Sales Tax rate to 3 percent.		Reduce the Sales Tax to 4%. Extend the Sales tax to consumer services ( <b>not consumer purchases</b> ), which includes professional services, school tuition, etc. This would exclude the tax from heating oil, electricity, etc.	
	\$377,590,296		\$678,333,816		\$88,358,842
No Proposal for Meals and Lodging Tax		Increase the Meals and Lodging Tax to 8%	\$22,340,000	No Proposal for Meals and Lodging Tax	
<b>Total Impact on General Fund</b>	<b>\$53,189,853</b>	<b>Total Impact on General Fund</b>	<b>\$139,341,072</b>	<b>Total Impact on General Fund</b>	<b>\$191,394</b>



Tax Restructuring Components	(Cost) / Savings	Tax Restructuring Components	(Cost )/ Savings
<b>Property Tax Relief - Real Property</b>		<b>Municipal Service Payment in Lieu of Property Tax Payments</b>	
Keep the <b>Homestead Property Tax Reimbursement Program</b> without any changes		Authorize municipalities to establish a municipal cost component for services provided to owners of property exempt from the property tax and to assess a municipal cost of service fee against these properties, including governmental properties. The determination of the fee against each property tax exempt parcel or lot must take into consideration the characteristics of each lot, such as number and square footage of buildings, if any, equipment, other facilities, etc.	
Expand the <b>Circuit Breaker Program</b> . Reduce the tax-to-income threshold to 3%, increase the maximum rebate to \$5,000, increase eligibility to \$45,000 for single filers and \$75,000 for multi-member households, and increase the renter percentage to 25 percent. Provide for a refundable tax credit on the income tax form.	(\$41,800,000)	A Commission composed of state, county, and regional officials and a representative of the Maine Municipal Association could be established to develop a formula or process for municipalities to use to determine the municipal cost of service component for tax exempt property.	
<b>Revenue Sharing.</b> Keep revenue Sharing 1 in its present form, including application of the Consumer Price Index to increases in this program. Increase from 5.1% to 6.0%, the percentage of sales and income tax revenues allocated to Revenue Sharing. Increase the threshold mil rate from 10 mills to 15 mills over a 5 year period that a municipality must meet to qualify for Revenue Sharing 2.	(\$16,900,000)	<b>Earned Income Tax credit.</b> Increase the Earned Income Tax Credit to 30% of the Federal Rate.	(\$34,991,628)
<b>Property Tax Relief - Personal Property</b>		<b>Personal Exemption</b>	
		Speaker’s Advisory Committee on Tax Reform. March 10, 2003	

Exclude from the personal property tax, new investment made by capital intensive firms, manufacturing firms, telecommunications and non-retail firms. Subject retail establishments to the personal property tax. All current property in the BETR program will remain exempt from the personal property tax following its exit from the BETR program. The BETR program will be eliminated once all current personal property in the program has been removed from the program.

The Constitutional requirement that the State reimburse municipalities for 50% of revenue losses from changes in the personal property tax will remain in effect. Increased funding for Revenue Sharing will also offset reduced personal property tax revenues

The State, for a fee charged to municipalities, will assume responsibility for assessing personal property valued at \$10 million or more.

**Reduce the Volatility of State Revenues**

Budget Stabilization Fund

1. Conform with the Federal Income Tax Credit provision and increase the personal exemption to make it the same as the Federal exemption. (\$10,159,716)

**Sales Tax**

Increase the Sales tax base by \$200 million or more to fund property tax relief and further reductions in personal property tax revenues.

**Consolidation/Regionalization**

Commission on Efficient Delivery of Services

The Budget Stabilization Fund would be funded "off the top" from the General Fund at a rate of 2% of total revenues. Any actual revenues in excess of a specified percentage of projected revenues will be divided among funding additional tax relief, the Budget Stabilization Fund, and other uses. The Budget Stabilization Fund will be capped at 12% of General Fund revenues.

1. Establish a commission to study and recommend to the Legislature an implementation plan for the efficient delivery of local, regional, and state governmental services, to include, but not be limited to: regionalization of administration and implementation of services.
2. The Governor and the presiding officers of the State Legislature will appoint the commission.
3. The commission will consist of representatives of municipal, county, and state governments as well as representatives of the private sector and the general public.
4. The Commission will report its findings and recommendations, including any necessary implementing legislation to the Second Regular Session of the 121st. Legislature.

**Current Personal Income Tax Brackets and Rates**  
**Single Filers:** Up to \$47,199 = 2.0%; \$4,200 to \$8,349 = 4.5%; \$8,350 to \$16,700 = 7.0%; and more than \$16,700 = 8.5%  
**Married Filing Jointly:** Up to \$8,399 = 2.0%; \$8,400 to \$16,699 = 4.5%; \$16,700 to \$33,400 = 7.0%; More than \$33,400 = 8.5%.  
**Heads of Households:** Income tax brackets are 1.5 times the brackets for single filers.

Two Income Tax Models	
Flat Rate Model	Top Rate Reduction Model
<b>Married Filing Jointly</b>	<b>Married Filing Jointly</b>
Flat Rate of 6.5%	\$0 Keep Rates of 2%, 4.5%, and 7% if possible Apply the 7.5% rate to incomes over \$69,600 Total Cost (\$95,000,000)
<b>Single Filers - Income tax brackets = one-half of tax brackets for married filing jointly.</b>	<b>Single Filers - Income tax brackets = one-half of tax brackets for married filing jointly.</b>
<b>Heads of Households - income tax brackets = 1.5 times the brackets of single filers.</b>	<b>Heads of Households - income tax brackets = 1.5 times the brackets of single filers.</b>

Total Cost - Includes Earned Income Tax Credit and Increased Personal Exemption	(\$58,700,000)	Total Cost - Includes Earned Income Tax Credit and Increased Personal Exemption	(\$140,151,344)
Total Additional Revenues - First Year Only	\$158,314,076	Total Additional Revenues - First Year only	\$158,314,076

<b>Speaker's Advisory Committee on Tax Reform - Version D</b> (Estimated in Order of Presentation)		
<b>Tax Restructuring Component</b>	<b>FY04 General Fund Expenditure</b>	<b>Fund Impact Revenue</b>
<b><i>Property Taxes</i></b>		
1. Eliminate the Personal Property Tax for Certain Eligible Property and Phase-Out BETR /1	\$ -	
2. Expand Circuit Breaker Program /2	\$48,910,239	-
3. Increase Revenue Sharing from 5.2% to 6% of Income and Sales Taxes		\$(16,999,021) -
<b><i>Individual Income Tax</i></b>		
4. Phase-Down Top Marginal Tax Rate to 6.5% and Phase-In Refundable EITC Equal to 30% of Federal		\$(67,137,094)
<b><i>Sales and Use Tax</i></b>		\$ (4,285,346)
		\$ 5,692,410
		\$18,406,085
5. Expand Sales & Use Tax Base to Previously Excluded Services and Exempt Sales, and Increase Meals Tax to 8% and Lodging Tax to 9%		\$15,142,731 additional revenue sharing in tax year 2000
<b><i>Excise Tax on Alcoholic Beverages</i></b>		Adjusted up by \$4.7 million for off-model items
6. Double Excise Tax on Liquor, Wine and Beer		\$ 8,418,000
<b><i>Budget Stabilization Fund</i></b>		
7. Seed with 2% of Additional Revenue from Sales Tax Base Expansion	\$ 1,783,622	

<b>Total</b>	<b>\$50,693,861</b>	<b>\$ 13,462,975</b>
<b>Total Impact on General Fund (- deficit/+ surplus)</b>		<b>\$(37,230,885)</b>
<p>1/ Exclude from the personal property tax, new investment made by capital intensive firms, manufacturing firms, telecommunications and non-retail firms. Property relating to retail operations will continue to be subject to the personal property tax. All property in the BETR program will remain exempt from the personal property tax following its exit from the BETR program. The BETR program will be eliminated once all current personal property in the program has been removed from the program. Proposal is effective for property tax years beginning on or after April 1, 2004.</p> <p>2/ The circuit breaker program would reimburse property taxes to single households with income below \$40,000 and multi-member households with income below \$75,000. The household would receive 100% of property taxes that exceed 3% of the household's income, up to \$5,000. The percentage of monthly rent considered to be property tax is increased from 18% to 25%. The income thresholds are indexed for inflation.</p>		
Maine Revenue Services		11:03 AM
Economic Research Division		5-Dec-02